ILLINOIS COMMERCE COMMISSION

DOCKET NO. 00-0802

REBUTTAL TESTIMONY

OF

ROBERT J. MILL

Submitted On Behalf

Of

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY

d/b/a AmerenCIPS

AND

UNION ELECTRIC COMPANY

d/b/a AmerenUE

May 18, 2001

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Introduction

1. Q. Please state your name and business address.

A. My name is Robert J. Mill. My business address is 607 E. Adams Street, Springfield, Illinois, 62739.

2. Q. By whom are you employed and in what capacity?

A. I am the Manager of the Regulatory Department of Central Illinois Public Service Company d/b/a AmerenCIPS ("AmerenCIPS"), a subsidiary of Ameren Corporation. I have responsibility for the design and administration of electric and gas tariffs, and the formulation of AmerenCIPS' rate policies.

3. Q. Are you the same Robert J. Mill who submitted direct testimony on December 15, 2000, in this case?

A. Yes, I am.

SBO Credits

4. Q. Please respond generally to Mr. Lazare's proposed SBO credits.

A. Mr. Lazare's proposed SBO credits drastically depart from the Companies' currently effective SBO credits that were derived from an embedded cost approach and approved by the Commission in Ameren's initial delivery services case (Docket No. 99-0121). Mr. Lazare's proposed SBO credit for AmerenCIPS' large customers is at least 28 times greater than AmerenCIPS' current SBO credit level (ignoring EDI-related costs). In fact, his proposed credit for AmerenCIPS of $14.62/month is at least 26 times greater than the current SBO credits of any major Illinois electric utility, all of whom perform a similar billing process to that of Ameren. I, together with Mr. Philip Difani, have made a detailed review of Mr. Lazare's method and have determined that Mr. Lazare's embedded cost methodology is defective in several ways. My testimony will: 1) show where Mr. Lazare's embedded cost method is flawed; 2) correct certain input assumptions regarding billing costs; and 3) present corrected SBO credits that are based on a sound embedded cost methodology.

5. Q. In his direct testimony, Mr. Lazare quotes at length your rebuttal testimony from the last Delivery Services docket (99-0121) regarding the appropriate SBO methodology. Would you comment?

A. Yes. While Mr. Lazare's quotes of my Rebuttal testimony appear to be accurate, they do not reflect the basis of the final agreement on the SBO methodology and resulting SBO credits that the Staff and the Companies developed. Between the rebuttal phase of the case and the hearings, the Companies reached agreement with Staff witness William Vanderlaan as to the appropriate method of calculating and applying the credit. Despite Mr. Lazare's opinion in the current docket, I believe the Commission properly referenced the resulting SBO method as being an embedded cost method. Mr. Vanderlaan based his analysis on data he received from the Companies regarding "the costs that were included in each Company's revenue requirement to produce and mail bills, to process and credit payments, and to process and write off uncollected debts" (Responses to Data Request Nos. DWV-1, 2, and 3). Those were the costs that were reflected in the final SBO calculations, along with a capital cost adder and EDI-related costs. The major differences between the final, approved SBO credits and those originally proposed in Mr. Vanderlaan's direct testimony were the number of bills used to unitize each cost element, the addition of EDI cost data and the determination of the cost adder. At the hearing, the Company withdrew its rebuttal arguments regarding the use of avoided costs and supported Staff's revised SBO credit. In the final analysis, I believe that the agreed to SBO credit in the last docket is a more accurate determination of a SBO credit than that being proposed by Mr. Lazare in this docket.

6. Q. Why did Ameren not propose a change to its SBO credit in its filing?

A. Ameren did not file any revisions to its Rider 1- Miscellaneous Fees and Charges Tariff Sheet No. 12.002 for AmerenCIPS and Sheet No. 66 for AmerenUE. Consequently, we did not compute revised SBO credits for the test year. Having reflected on this issue now, it is clear that we should have computed an SBO credit applicable to residential delivery service customers. The Companies would be willing to modify the above tariff sheets to simply make the SBO credit currently applicable for DS-2 also applicable to DS-1 for residential customers. In the prior proceeding, the DS-1 and DS-2 SBO credits were computed to be identical due to the SBO related processes being virtually identical for both classes of customers. In the event that the Commission does not accept our initial proposal to retain the currently effective SBO credits and apply the DS-2 credit to DS-1 customers, we have performed a new embedded cost study using updated costs to calculate revised SBO credits.

7. Q. What is Ameren proposing for SBO credits in this proceeding?

A. AmerenCIPS is proposing SBO credit levels based on test year costs of service of: $.05 for residential and commercial customers (DS-1 and DS-2); and $.04 for large customers taking under DS-3. AmerenUE is proposing SBO credit levels of: $.01 for residential and commercial customers (DS-1 and DS-2); and no credit for large customers taking under DS-3 and DS-4. We continue to support applying these credits directly to the calculation of DS customer bills. See Ameren Exhibit No. 12.1 for a table of proposed SBO credits.

8. Q. Explain why the SBO method used by Ameren is reasonable.

A. The Ameren embedded cost method performed by Mr. Difani adopts fair and consistent cost of service principles that were overlooked by Mr. Lazare.

Mr. Difani's rebuttal testimony in this docket provides additional support for the reasonableness of his embedded cost method and resulting SBO revenue requirements.

9. Q. You indicated previously that Mr. Lazare's embedded cost method is flawed. Please explain.

A. Mr. Lazare's method has five principal flaws:

1) Mr. Lazare has double counted certain capital related items in his study. In Mr. Lazare's study for AmerenCIPS he incorrectly functionalized General Plant to SBO, implying there are assets supportive of the billing and remittance processes on AmerenCIPS' books. All billing activities for AmerenUE and AmerenCIPS are conducted in the Ameren headquarters building in St. Louis. AmerenUE actually owns all of the assets used in those billing processes and thus records those assets in its plant accounts. AmerenCIPS has no assets associated with billing, but is required to compensate AmerenUE for those assets through monthly rents (Administrative and General Expense ("A&G"), Account 931). Consequently, Mr. Lazare improperly allocates costs associated with billing-related assets twice to AmerenCIPS, once in his assignment of General Plant (that has no billing-related assets for AmerenCIPS) and a second time by assigning Account 931. For AmerenUE, an assignment of General Plant is appropriate, assuming, however, the Company's cost-of-service methodology for General Plant is adopted. As discussed by Mr. Difani in his rebuttal testimony, Mr. Luth used a plant in service based allocator for General plant allocation. Mr. Lazare

did not adopt Mr. Luth's allocator. Mr. Lazare has already adopted a cost of service principle of only including costs in Account 903 that are directly related to bill-related processes. The same principal should apply to other cost components throughout his study.

2) Mr. Lazare included labor overheads twice. Mr. Lazare used Company specific labor elements associated with Customer Accounts (Account 903) for actual billing and remittance processes that he witnessed at Ameren that already included 40% overheads. Mr. Lazare then used the fully loaded labor costs to functionalize A&G expense to SBO. Since the 40% salary overhead adder already includes the benefit costs accounted for as A&G expense, Mr. Lazare's results are flawed. He should have used Account 903 labor without the overhead adder to functionalize A&G expense.

3) Mr. Lazare's study is inconsistent with Mr. Luth's cost-of-service study. Mr. Luth used plant in service ratios to allocate General Plant while Mr. Lazare used labor ratios as the allocation basis. A second inconsistency exists with Mr. Luth's using an O&M based allocator for A&G expense, while Mr. Lazare, as well as the Companies, used labor ratios. The final SBO credit must be determined on a consistent cost-of-service basis once all cost of service issues have been resolved.

4) Mr. Lazare adopted "lock box" related expenses from Docket No. 99-0121. The Companies no longer utilize outside lock box services to collect payments; consequently, this cost should not be included in his study.

5) Mr. Lazare allocates bill processing and remittance costs to each customer category on a weighted cost basis originally used by Ameren for allocation of the entire billing process. That allocator is not reflective of actual cost incurrence for the billing processes used for SBO credit determination. Billing and remittance costs are more accurately assigned on a uniform per customer bill basis. The billing and remittance processes at issue do not vary due to customer size.

10. Q. Please discuss your recent revisions to certain input assumptions used by Mr. Lazare.

A. The Company responded to Data Request No. PL-11 on April 6, 2001. In that response, the Company made allocations of labor associated with various electric billing and remittance processes between Illinois and Missouri, then again between AmerenUE and AmerenCIPS based on bills issued. Mr. Lazare relied on that data response to perform his study and included the response with his direct testimony as Staff Exhibit 6, Schedule 3. After Mr. Lazare filed his direct testimony, it was discovered that there was an error on the schedule in allocating two processes between Illinois and Missouri. On May 11, 2001, the Company met with Mr. Lazare and provided him with the revised labor allocation table. Mr. Difani's SBO revenue requirement reflects the revised labor data from Supplemental Data Response No. PL-11.

11. Q. Do you have any other criticisms of Mr. Lazare's SBO study?

A. Mr. Lazare's SBO results by rate class do not match billing and remittance processes for those same classes. For example, Mr. Lazare calculates SBO costs for a DS-2 (secondary) customer at $.52 per month, and for a DS-2 (primary) customer of $.37 per month. The only difference in billing is the unit rate applied to usage. There are no process differences. Consequently, there is no rationale for the substantial difference in costs. Another example where his results are out of synch with the cost of the actual billing processes is the extreme cost difference between DS-2 (primary) and DS-3 (primary), an increase of 4000%. The actual size difference between these two primary customers could be as little as a few KW and, again, the cost of the billing and remittance processes are identical. Mr. Lazare's results would suggest, however, that the cost of the processes involved vary dramatically by the size of the customer or the amount of the bill. That is simply not the case. The billing processes for all customers are relatively uniform, and that is reflected in Mr. Difani's SBO study. When performing unbundling studies, one must examine the cost-causation factors prior to designing the cost allocation methodology. Unbundling is a process new to the industry and to Commissions. Great care must be taken to be as accurate as possible when determining cost functionalization and allocation for discrete processes. Issues decided by the Commission that affect the final cost-of-service in this proceeding should be reflected in the final determination of SBO costs to the extent practicable. We are hopeful the Commission Order will give adequate guidance to determine the final SBO credit levels so tariff sheets can be filed without returning to the Commission for further approvals.

EDI Costs

12. Q. In his Direct Testimony, Mr. Lazare proposes that the Companies provide support in rebuttal testimony for the costs of EDI transactions which were offsets to the SBO credits ordered by the Commission in Docket 99-0121. What are the amounts of those EDI costs?

A. As shown on Staff Exhibit 6.0, Schedule 1 of Mr. Lazare's testimony in this docket, the EDI costs approved in Docket No. 99-0121 for the Companies' DS-1 & DS-2 classes are $.30 per month and for DS-3 and DS-4 for AmerenUE, it is $.48 per month.

13. Q. What support do you provide for these cost offsets?

A. The support for these costs was provided to the Staff during Docket 99-0121 in response to Data Requests. Because the Company has yet to have even one SBO transaction take place, we have no embedded costs of EDI transactions associated with the SBO process included in the test year. Nevertheless, we have undertaken a new study to determine the level of such EDI costs.

14. Q. What are the results of that study?

A. Our analysis concludes that the cost of EDI transactions for administering SBO is $.42 per month for DS-1 & DS-2 and $.43 per month for DS-3 & DS-4. Data Response No. PL-12 provides the details of the EDI cost calculation.

15. Q. Please explain the calculation of EDI cost per transaction.

A. The Companies are charged for EDI transactions in two ways for the SBO process. One charge is a "per character" charge and the other is a "per message" charge. Because there are both Prime Time and Off Peak time charge periods, an average for both charges was developed as noted on the schedule.

The first step of the calculation is to determine the number of characters transmitted in the four different transmittals noted in the top section of the schedule. These are slightly higher for the demand-based customers in DS-3 and DS-4 due to the greater amount of information presented on the bill. The details behind the character calculation are shown in the Companies' data request response to PL-12. The rate per character is supported by a recent invoice for EDI services from a vendor providing Value-Added-Network (VAN) services for Ameren on other EDI transactions not related to SBO, also provided in the data response to PL-12.

To develop a "per message" charge, certain assumptions were made about the number of customers that would be combined into a single message to a RES providing SBO service and those assumptions are also noted on the schedule. The total vendor cost of the EDI transaction is developed by adding the "per character" and "per message" charges.

16. Q. Please explain the labor cost per EDI transaction.

A. The monthly labor amount represents one full time equivalent (FTE) employee, including overheads. It is estimated that one FTE employee would be needed if a substantial number of monthly bills were delivered via the SBO with EDI transactions.

17. Q. Are you aware of any discussions regarding development of technology to reduce the costs of EDI transactions through the VAN?

A. Yes. The Communications Protocol Working Group (CPWG) that was formed by the ICC during the early stages of deregulation to develop communication methods and technologies for matters such as electronic data exchange has had some discussions on alternatives to the VAN technology. Ameren is represented on the CPWG as are all utilities, some ARES and ICC Staff. It is my understanding that some members of the group are recommending movement to an internet-based technology in the future to replace the current EDI standards based on the VAN technology. Ameren has not yet committed to the internet-based approach.

18. Q. Has Ameren performed a detailed analysis to determine the costs to utilize the Internet method instead of the VAN technology?

A. No, Ameren believes it would be premature to estimate what the cost per transaction might be under the Internet technology. While a commitment to move towards this new standard in Illinois has been made by many parties, the target date for full implementation is uncertain. Even if utilities were to install the systems required, implementation would not take place until ARES have purchased and implemented the necessary software and hardware to completely change methods. Also, the national effort to develop Uniform Business Practices has yet to decide on a method to use for electronic transmission of data, so the EDI VAN transactions may continue to be the national standard for some time.

To estimate the possible cost per transaction when various choices of software, implementation schedules and business practices have not yet been finalized, one would have to make many assumptions. Staff has taken positions in the original delivery services cases and again in the meter unbundling cases that such system development costs should only be included in rates when they are known and measurable and that budgets and approved work orders do not meet that standard. We are assuming the same standard would be applied in this case on this matter. Therefore, the only known and measurable costs for EDI transactions are those based on current methods, not on future methods that will evolve some day.

Rate Design

19. Q. Have you reviewed Mr. Luth's rate design proposal?

A. Yes. It appears that Mr. Luth used a formulaic basis for his proposed rates, without regard to other rate design considerations. Mr. Luth simply used the demand-related revenue requirement divided by billing units to arrive at the monthly charge. While one can argue that this is the most precise basis on which to set prices, it can sometimes conflict with other important cost-tracking rate design considerations. Specifically, as addressed in my direct testimony (Ameren Exhibit 2.0, lines 183 through 206), care must be taken to develop charges for each voltage level. It is important to recognize that cost-of-service methodologies have not been perfected for complete unbundling as we are doing in Illinois. Therefore, it is necessary to apply additional criteria to mitigate unintended effects of pricing. With several voltage level choices available for DS-3 customers, we must be careful to not rely entirely on the average rates that are derived from the cost-of-service study, without considering their potential to lead to uneconomic voltage switching. Such switching would ultimately shift more costs to fewer customers served at the original voltage level. I would strongly urge the Staff to work with the Company when the final class revenue requirements are known to incorporate reasonable factors for voltage level price differences in the DS-3 tariff. I recommend that the final DS-3 delivery charge prices be constrained to not exceed Staff's current proposed price differentials for the secondary, primary and high voltage delivery levels. The sum of the individual voltage-based delivery charges would equal the final approved DS-3 delivery component revenue requirement.

I also recommend that the Staff adjust its final pricing for DS-2 to result in a DS-2 (secondary) delivery charge to be greater than the DS-2 (primary) delivery charge. It is contrary to cost causation to price secondary service lower than primary service for the same rate class, when it takes greater investment to serve a secondary customer, all other aspects being the same. While I understand load factor can be the cause of price distortion for DS-2, distribution investment is a fixed cost without a variable cost component. Even though cost recovery for certain customers is based on energy usage, we must strive toward sending accurate price signals that follow cost causation, whenever possible.

20. Q. Does this conclude your rebuttal testimony?

A. Yes.

Docket No. 00-0802
Ameren EX. No. 12.1

Ameren's Proposed SBO Credits
($ per Month)

AmerenCIPS	**DS-1**	**DS-2 (sec)**	**DS-2 (pri)**	**DS-3 (sec)**	**DS-3 (pri)**	**DS-3 (hv)**
SBO Costs*	$ 0.47	$ 0.47	$ 0.47	$ 0.47	$ 0.47	$ 0.47
EDI Costs**	$ 0.42	$ 0.42	$ 0.42	$ 0.43	$ 0.43	$ 0.43
SBO Credit	$ 0.05	$ 0.05	$ 0.05	$ 0.04	$ 0.04	$ 0.04

AmerenUE	**DS-1**	**DS-2**	**DS-3**	**DS-4**
SBO Costs*	$ 0.43	$ 0.43	$ 0.43	$ 0.43
EDI Costs**	$ 0.42	$ 0.42	$ 0.43	$ 0.43
SBO Credit	$ 0.01	$ 0.01	$ -	$ -

* Costs calculated using the Ameren Cost of Service study (Mr. Phillip Difani).
** Costs from Ameren response to Data Request PL-12.